Interprovincial Pipe Line Limited

Annual Report 1981

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The Canada Life Assurance Company
Toronto

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GORDON A. COLE
Vice-President & General Manager

E. GORDON SHEASBY
Vice-President & General Counsel

LAWRENCE W. BLAINE
Vice-President & Treasurer

J. NEIL ST. JOHN, Corporate Secretary

JOHN R. CULHAM, Controller

DEREK P. TRUSWELL, Assistant Controller

FREDERICK B. NEWTON, Assistant Treasurer

Members of the Board of Directors
Front: R. K. Heule, R. C. Gimlin, G. H Curtis
Back: W. H. Griffin, D. J. Taylor, C. E. Medland, W. D. H. Gardiner, J.-C. Delorme, E. H. Crawford, W. A. West

Annual Meeting

2:30 p.m. Wednesday, April 14, 1982 "Upper Canada" Room, Royal York Hotel, 100 Front Street West, Toronto.

The Notice of Meeting, Proxy Circular and Form of Proxy are being mailed with this report on March 15, 1982 to all shareholders of record.

Contents

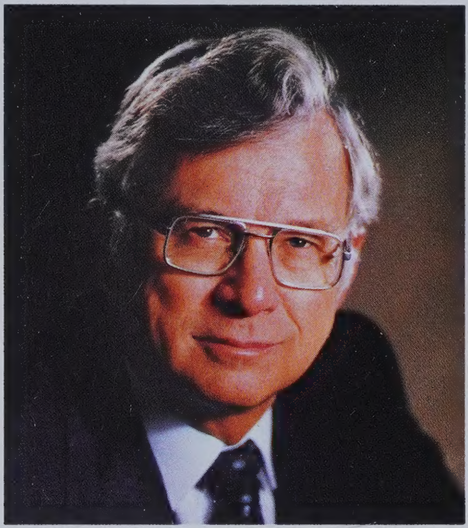
Highlights

Financial	1981	1980	Percentage Increase (Decrease)
Transportation revenue	$ 302,097,000	$ 302,028,000	
Deficiency agreement	$ 7,747,000	$ 6,760,000	
Other income	$ 17,592,000	$ 12,270,000	43%
Expenses, excluding taxes	$ 195,554,000	$ 202,024,000	(3%)
Income and other taxes	$ 75,522,000	$ 70,330,000	7%
Earnings	$ 56,360,000	$ 48,704,000	16%
per share	$ 2.19	$ 1.90	
Dividends	$ 38,544,000	$ 38,459,000	
per share	$ 1.50	$ 1.50	
Capital expenditures	$ 40,282,000	$ 31,459,000	
Funds provided from operations	$ 105,041,000	$ 93,546,000	

Statistical			
Deliveries (cubic metres per day)*			
By quarters			
First	221 307	240 115	
Second	190 307	222 035	
Third	190 221	209 751	
Fourth	194 777	219 998	
Yearly average	199 056	222 930	
Highest month	234 997	247 375	
Lowest month	172 520	202 314	
Cubic metres delivered	72 655 000	81 592 000	(11%)
Cubic metre kilometres (millions)	163 757	187 127	(12%)

*1 cubic metre = 6.3 barrels

Price range of common shares		
High	$ 16¾	$ 20
Low	$ 12¾	$ 15¼



R. K. Heule, President

Earnings for 1981 were $56 million or $2.19 per share. This represented an increase of 16% over 1980 earnings of $49 million or $1.90 per share. The improvement in earnings was achieved even though average deliveries declined by 11% to 199 000 cubic metres per day (m^3/d). The decline in throughput was largely offset by tariff increases implemented during the year. Non-operating income increased by $5 million to $18 million and, therefore, contributed significantly to the improvement in earnings.

Reduced deliveries to all geographic regions in Canada occurred as a result of lower consumer demand for petroleum products because of conservation and the general economic slowdown. This reduced demand resulted in lower light crude oil volumes entering the system which coincided with the Alberta production cutbacks in response to the energy pricing dispute between the Alberta and Federal governments. Synthetic crude receipts were also lower due to plant production problems throughout the year.

Canadian crude oil exports to the United States were again lower than in the previous year. In most cases, this export reduction was made up by higher deliveries of U.S. production, with the exception of deliveries to the Buffalo area where overall volume declined by approximately 4 000 m^3/d due to the shutdown of the Mobil refinery.

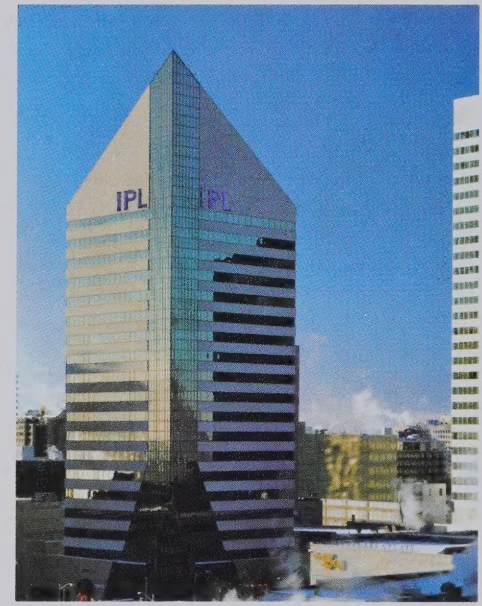
Deliveries to Montreal of 37 000 m^3/d, down 12 000 m^3/d from 1980, were affected by the Alberta cutbacks and towards the end of the year by offshore supply commitments of the Montreal refineries. It is expected that deliveries will show a modest decline in 1982.

Tariffs established for 1981 recognized the reduced throughput level from the cutbacks in Alberta light crude production. Lifting of these production cutbacks following the September Energy Pricing Agreement between the Federal and Alberta governments raised fourth quarter deliveries only modestly, again reflecting the continuing soft demand for petroleum products.

As reported in greater detail under the section on Rate Regulation, future earnings of the company will be significantly affected by the rate adjustments allowed by the regulatory agencies under which the company operates. Further, even though the regulators currently allow rates to be based on a forward test year, actual earnings depend on the accuracy of forecast throughputs and expenses for the test period, as well as the allowed rate of return and the lag in implementing the new tariffs.

The company intends to file an application with the National Energy Board later in 1982 which will propose a higher return on equity. The present allowed return on equity of 15.25% was based on data filed in 1979 when the cost of capital funds was at a lower level.

We are pleased that the Federal Government in 1981 granted approval for construction of the Norman Wells pipeline project. The project received the necessary NEB Certificate in the fall but only after extensive negotiations with other agencies of the Federal Government relating principally to the timing of the project. The timetable for development of the Esso Resources oilfield at Norman Wells and the company's proposed pipeline was delayed in order to provide more time for the Government's settlement of native land claims in the North. Both projects are now scheduled for completion by mid-1985. In announcing approval of the project the Minister of Indian & Northern Affairs commended the joint project for its job and business opportunities for northerners and its significant addition to Canadian energy supplies. Increased oil production from the project will result in an estimated $900 million yearly savings by replacing imported oil through reductions in foreign exchange and oil import compensation.



IPL Tower located in downtown Edmonton

The pipeline will serve one oilfield and a single shipper and, because of this condition, the company has entered into an agreement with Imperial Oil Limited which provides the financial support for the pipeline project through a full cost of service tariff.

This is our first major pipeline expansion in over five years. The Norman Wells project will make a significant contribution to future earnings and upon completion the company will be strategically positioned for potential participation in this largely undeveloped Mackenzie River basin.

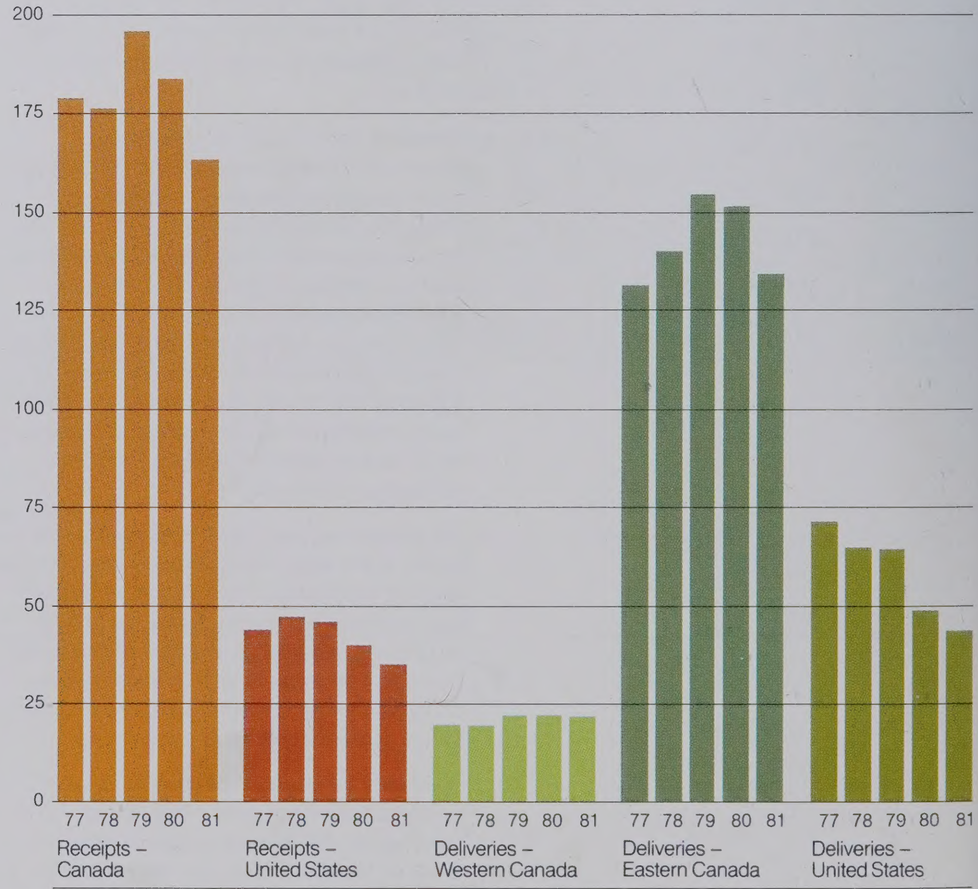
In other recent developments, we have continued to investigate the potential for transportation of specialized petroleum products to Eastern markets in view of the changing liquid hydrocarbon supply pattern in Western Canada. Interprovincial would appear to be in an excellent position to play a key role in responding to these changing conditions by providing appropriate pipeline facilities, assuming the current forecast product volumes become available and the required long term commitments are in place. It is our intention to continue to seek other investments in areas related to present pipeline activities.

During the year an ownership position was acquired in a new 20-storey office tower in downtown Edmonton, known as the IPL Tower. As the major concentration of employees is located at the operational headquarters in Edmonton, the company will be the principal tenant in this building and will have excellent office facilities to serve both present and future requirements.

The Restrictive Trade Practices Commission commenced its inquiry into the state of competition in the Canadian petroleum industry at a hearing in Ottawa in October 1981. The Bertrand Report filed last spring alleged that Canadian oil pipelines behaved in an anti-competitive manner. In particular, it said that the company served as a vehicle to enable the exchange of informa-

Receipts and deliveries

Cubic metres per day (thousands)



tion between shippers, that it unfairly restricted shipper access to the pipeline system, and that past earnings were excessive. Regional hearings in the current inquiry held in Edmonton, Vancouver and Ottawa in December dealt with the retail sale of petroleum products and did not involve the company. It now appears that the transportation and pipeline issues will not be heard until later in 1982. It is Interprovincial's position that allegations made against it are unsupported by any evidence and result from a misunderstanding of the way the oil industry operates.

Rate Regulation

In 1980 the NEB established a procedure whereby new rates could be applied for in order to reflect adjustments in throughput, cost of service and the rate base without the necessity of a public hearing when no changes were advocated in the rate methodology or policies previously approved by the Board. In accordance with this procedure, Interprovincial filed new rates for its Canadian system which became effective February 15, 1981. In the fall the company again made use of these expedited rate proceedings in submitting new tariffs to reflect projected throughput and costs for 1982. Lower forecast throughput and higher expected costs required a 16% tariff increase to meet the allowed return for 1982. Since tariffs are structured to cover forecast costs on the basis of forecast throughput the company regularly monitors its costs and forecasting procedures to ensure that it has the best opportunity to earn its allowed return.

The Canadian oil pipeline industry is concerned that the present form of rate regulation is not appropriate to the particular characteristics of oil pipelines. Early in 1981 the NEB stated that it would be willing to consider proposals for alternative methods of regulation and suggested that the initiative to undertake the requisite studies and proposals should come from industry. The industry, represented by the Canadian Petroleum Association, engaged consultants to conduct studies in this area and the results were recently submitted to the NEB. It is expected that the Board will consider it appropriate to hold a generic hearing into the matter later in 1982.

A rate increase by Lakehead became effective January 5, 1981 to reflect projected throughput and costs for the year. Lakehead also filed a general rate increase with the Federal Energy Regulatory Commission which became effective October 31. This latest adjustment reflected a 27% increase in general tariff levels and was set to recover expenses and maintain its allowed return on the basis of 1982 projections. In both cases the rates were accepted for filing and suspended for one day, subject to refund if subsequently found to be unreasonable. This is the current procedure followed by the FERC with the majority of tariff filings by interstate oil pipelines in the U.S. pending a decision by the Commission on general oil pipeline ratemaking practices. A decision by the FERC is not expected to affect Lakehead rates in 1982.

Proposed legislation to reform regulation of pipelines in the U.S. is of particular interest to Lakehead. This bill, introduced in both the Senate and the House of Representatives, proposes to remove FERC jurisdiction over interstate oil pipeline rates.

Norman Wells

During 1981 the Federal Government approved the issuance of a Certificate of Public Convenience and Necessity by the NEB to the company's wholly-owned subsidiary, Interprovincial Pipe Line (NW) Ltd. for the oil pipeline to be constructed from Norman Wells in the Northwest Territories to Zama in northwestern Alberta. The decision of the Board to issue the Certificate was released in March 1981 but subject to approval of the Governor-in-Council. The Certificate finally issued in November was subject to a number of specific terms and conditions relating to the project which require the completion of further work concerning detailed design, environmental and socio-economic considerations. Prior to its approval, the Federal Cabinet required the company's agreement to a revised timetable for pipeline construction which delayed completion of the project to mid-1985. During 1982 work will continue in all areas to meet the conditions of the Certificate to ensure that construction can commence in 1983.

The delay in initiating construction and current inflation projections have increased the estimated cost of completing the pipeline to $576 million. Interim financing with Canadian banks is being negotiated and long term financing will depend on market conditions.

E. G. Sheasby, Vice-President & General Counsel;
R. P. Smith, Solicitor

J. T. Armstrong, Supervisor, Rates;
L. R. McCurdy, Manager,
Financial Planning and Regulation;
L. M. Elbrecht, Financial Analyst

Financial Review

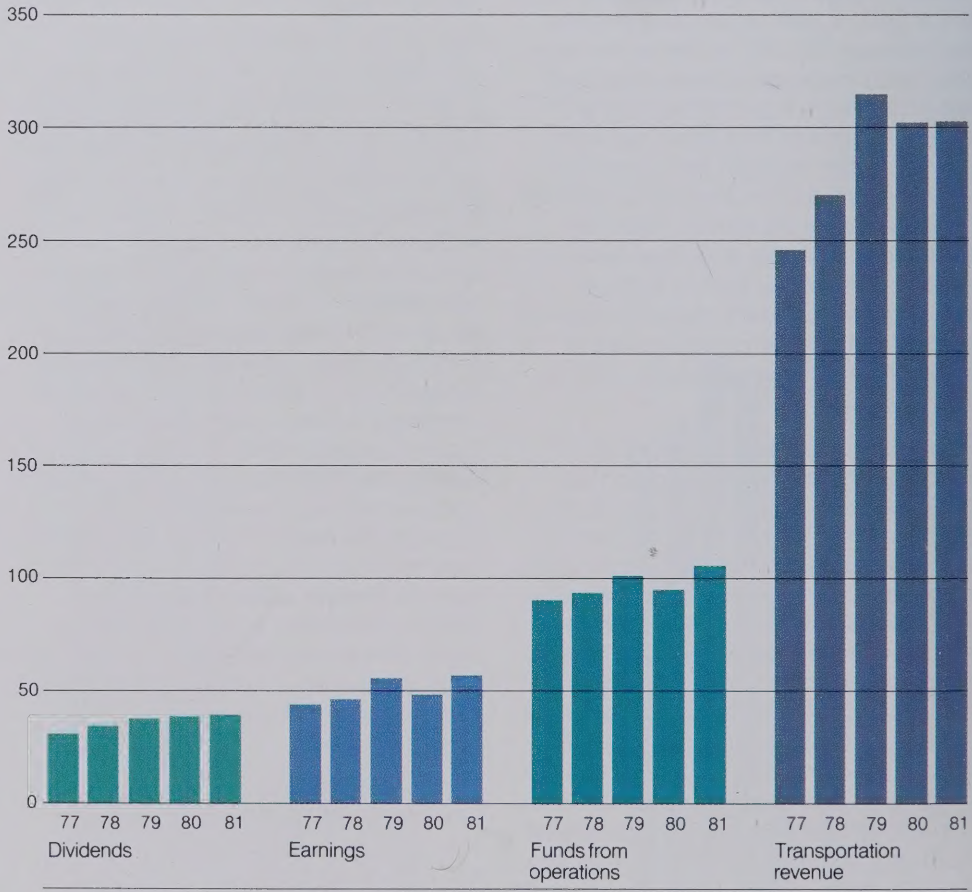
Income

Total income for the year including non-operating income increased by 2% to $327 million from $321 million in 1980. Transportation revenue was $302 million, the same as the previous year. Tariff increases, together with the higher U.S. exchange rate, combined to offset an 11% reduction in volume transported through the system.

Revenues received under the Montreal Extension Deficiency Agreement with the Canadian Government increased to $7.7 million from $6.8 million in the previous year due to lower deliveries on the Sarnia to Montreal portion of the system.

Other income amounted to $17.6 million which included $13.5 million from investment income and profit on purchase of company debt. In addition allowance for funds used during construction amounted to $2.3 million including an allowance for equity funds on the Norman Wells pipeline project.

Financial
millions of dollars



Expenses

Power and fuel costs decreased to $63 million from $75 million in the previous year because of reduced deliveries and a more efficient pumping operation. Other operating and administrative expenses amounted to $54 million which included $31 million for salaries, wages and benefits, $6 million for oil losses and $6 million for pipeline repairs and maintenance.

Taxes payable to governments amounted to $75 million during the year and included income and withholding taxes of $56 million payable to the Canadian and U.S. Governments and property and other capital taxes of $19 million paid to provincial, state and other local government authorities.

Earnings and Dividends

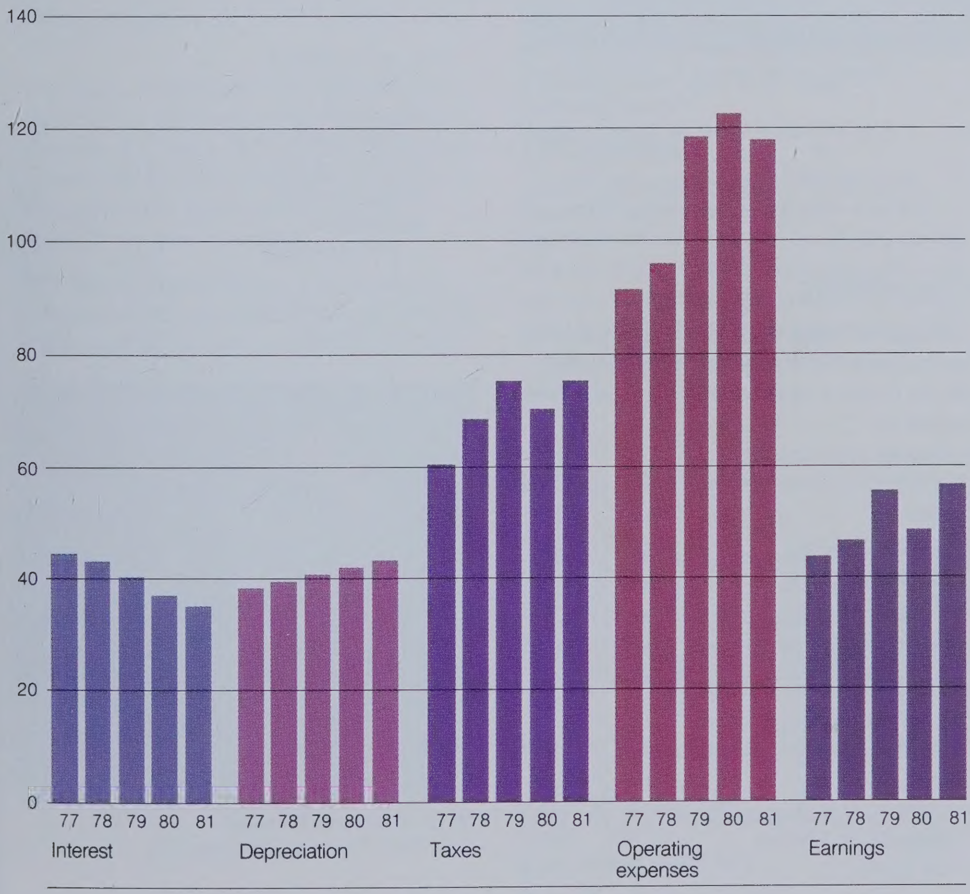
Earnings for the year were $56 million or $2.19 per share compared with $49 million or $1.90 per share in 1980.

Dividends of $1.50 per share including a 10¢ per share extra dividend were paid during the year and totalled $38.5 million or 68% of earnings. Shareholders may receive stock dividends instead of cash dividends should they so elect. During the year, 57 512 common shares with an aggregate cash value of $856,000 were issued from treasury as stock dividends.

Effective March 1, 1982, the regular quarterly dividend has been increased to 37½¢ per share.

Front: J. R. Culham, Controller; L. W. Blaine, Vice-President and Treasurer
Back: D. P. Truswell, Assistant Controller; F. B. Newton, Assistant Treasurer

Distribution of revenue
millions of dollars



Back: G. A. Cole, Vice-President & General Manager;
A. B. McCarroll, Director, Administration;
O. T. Linton, Director, Operations

Front: D. J. Ross, Director, Engineering;
W. M. Pearce, Project Manager, Norman Wells

Operations

The total volumes of crude oil and other liquid hydrocarbons received and delivered by the pipeline system during the year were as follows:

Receipts—by location

(thousands of cubic metres per day)	1981	1980
Alberta	141.9	157.3
Saskatchewan	19.9	24.1
Manitoba	1.6	1.7
Ontario	.3	.5
United States	34.9	39.9
	198.6	223.5

Deliveries—by type

(thousands of cubic metres per day)	1981	1980
CRUDE OIL		
Light	127.6	149.2
Medium and heavy	32.2	32.0
Oil sands	12.7	14.5
NATURAL GAS LIQUIDS		
Condensate	7.7	8.6
Propane/butane mix	10.0	9.1
REFINED PRODUCTS	8.9	9.5
	199.1	222.9

Deliveries—by location

(thousands of cubic metres per day)	1981	1980
CANADA		
Canadian production		
Prairie Provinces	21.7	22.3
Ontario	90.2	93.8
Quebec	33.7	43.8
	145.6	159.9
U.S. and offshore production		
Ontario	6.7	8.9
Quebec	3.3	5.2
	10.0	14.1
TOTAL CANADIAN DELIVERIES	155.6	174.0
UNITED STATES		
Canadian production		
Minnesota-Wisconsin	16.0	16.6
Illinois-Indiana	1.2	3.9
Michigan-Ohio	1.0	1.8
New York-Pennsylvania	0.3	1.0
	18.5	23.3
U.S. and offshore production		
Minnesota-Wisconsin	2.2	1.7
Illinois-Indiana	2.6	1.1
Michigan-Ohio	7.4	6.8
New York-Pennsylvania	12.8	16.0
	25.0	25.6
TOTAL U.S. DELIVERIES	43.5	48.9
TOTAL DELIVERIES	199.1	222.9

W. C. Cochrane, President
Lakehead Pipe Line Company, Inc.

Tariffs

Tariffs charged by Interprovincial for the transportation of crude oil, natural gas liquids and refined petroleum products in Canada are subject to approval by the NEB. In the United States Lakehead's rates are regulated by the FERC.

As mentioned previously in this report both companies filed general rate increases which became effective early in 1981 and more recently general rate increases were filed late in 1981 to reflect projected throughput changes and increased costs for 1982.

As a result of these adjustments, combined rates for representative shipments are:

	Rates for light crude in Dollars per cubic metre from	
To	Edmonton	Chicago
Regina	$1.450	$ —
Clearbrook	3.123	—
Superior	3.694	—
Chicago	4.847	—
Sarnia	5.274	1.448
Toronto	5.684	1.858
Buffalo	5.863	2.036
Montreal	6.719	2.893

The rates for heavier crude, natural gas liquids and refined petroleum products are slightly higher.

Construction

1981 Review

Capital expenditures in 1981 totalled $40 million.

The major project for 1981 was the electrification of five pump stations in Western Canada at a cost of $20 million. When fully operational early in 1982 all Interprovincial and Lakehead pump stations will be powered by electric motors.

To improve measurement accuracy and efficiency, new crude oil metering facilities were installed at three terminal locations at a cost of $4.6 million. For environmental considerations a number of additional pipeline isolation valves were installed on the company's major express line (864 mm diameter) from Western Canada.

1982 Forecast

Capital expenditures for 1982 are estimated at $12 million. This very modest capital program is chiefly to modify certain existing storage tanks to comply with new environmental regulations and for the normal replacement of work equipment and certain pipeline control equipment.

General

As part of our social responsibility the company continues to place an importance on improving the quality of public life. Through its contribution program financial assistance is given to many worthy causes which have a beneficial social impact.

The directors and management welcome this opportunity to express appreciation to our employees who through their skills, dedication and experience have enabled the company to enjoy a successful year.

R. K. Heule

R. K. Heule, President
& Chief Executive Officer

Consolidated Statement of Earnings
(in thousands of dollars except per share amounts)

	Year ended December 31 1981	1980
Income:		
Transportation revenue	$302,097	$302,028
Montreal Extension Deficiency Agreement *(Note 2)*	7,747	6,760
Other income	17,592	12,270
	327,436	321,058
Expenses: *(Note 1)*		
Operating—power and fuel	63,033	75,044
—other	54,136	47,264
Property and other taxes	19,055	18,169
Provision for depreciation and amortization	42,959	42,091
Interest on long term debt	34,937	37,275
Foreign exchange	489	350
	214,609	220,193
Earnings before income taxes	112,827	100,865
Provision for income taxes: *(Note 1)*		
Current	49,994	49,826
Deferred	6,247	2,664
Deferred investment tax credits	226	(329)
	56,467	52,161
Earnings for the year	$ 56,360	$ 48,704
Earnings per share *(Note 1)*	$ 2.19	$ 1.90

Consolidated Statement of Retained Earnings
(in thousands of dollars except per share amount)

	Year ended December 31 1981	1980
Balance at beginning of year	$198,251	$188,006
Earnings for the year	56,360	48,704
	254,611	236,710
Dividends paid—($1.50 per share)	38,544	38,459
Balance at end of year	$216,067	$198,251

Consolidated Statement of Changes in Financial Position
(in thousands of dollars)

	Year ended December 31 1981	1980
Source of funds:		
Earnings for the year	$ 56,360	$ 48,704
Add—Charges (credits) to earnings not affecting working capital:		
Depreciation and amortization	42,959	42,091
Deferred income taxes	6,247	2,664
Deferred investment tax credits	226	(329)
Other	(751)	416
Provided from operations	105,041	93,546
Capital stock issued	900	920
	105,941	94,466
Use of funds:		
Dividends	38,544	38,459
Additions to pipeline transportation system	40,282	31,459
Long term debt retired or included in current liabilities	21,122	24,713
Other transactions	9,054	1,787
	109,002	96,418
Change in working capital	(3,061)	(1,952)
Working capital at beginning of year	54,674	56,626
Working capital at end of year	$ 51,613	$ 54,674

Consolidated Balance Sheet

(in thousands of dollars)

	December 31 1981	1980
ASSETS		
Current Assets:		
Cash, including bank term deposits	$ 30,068	$ 30,422
Short term investments, at lower of cost and market	35,971	43,922
Accounts receivable—		
Transportation charges	23,731	21,731
Other	2,739	8,065
Inventory of materials and supplies, at cost	3,793	4,450
Prepaid expenses	298	379
	96,600	108,969
Deferred Charges and Other Assets *(Note 3)*	20,542	10,987
Pipeline Transportation System, at cost *(Notes 1 and 4)*	1,178,729	1,148,642
Less—Accumulated depreciation and amortization	472,845	440,331
	705,884	708,311
	$ 823,026	$ 828,267

The financial statements have been approved by the Board:

Director

Director

	December 31 1981	1980
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 18,432	$ 16,280
Interest accrued	9,458	10,458
Income and other taxes	11,838	14,147
Current portion of long term debt	5,259	13,410
	44,987	54,295
Long Term Debt *(Note 5)*	358,863	379,985
Deferred Income Taxes *(Note 1)*	140,997	134,750
Deferred Investment Tax Credits *(Note 1)*	11,603	11,377
SHAREHOLDERS' EQUITY		
Capital Stock *(Note 6)*	27,242	26,342
Contributed Surplus	23,267	23,267
Retained Earnings *(Note 1)*	216,067	198,251
	266,576	247,860
Contingent Liabilities *(Note 7)*		
	$ 823,026	$ 828,267

Auditors' Report

To the Shareholders of
INTERPROVINCIAL PIPE LINE LIMITED:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Limited as at December 31, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 5, 1982

Price Waterhouse
Chartered Accountants

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards.

Principles of Consolidation

The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited and its wholly-owned United States subsidiary Lakehead Pipe Line Company, Inc. and its wholly-owned subsidiary Pipe Line Service Company, Inc.

Regulation

Interprovincial and Lakehead own and operate a pipeline system for the transportation of crude oil and other liquid hydrocarbons.

Construction, operations, accounting and rates in Canada are under the regulatory authority of the National Energy Board. Rates, accounting and other practices in the United States are under the regulatory authority of the Federal Energy Regulatory Commission. The companies follow the accounting policies prescribed or authorized by these authorities.

Foreign Exchange

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—
at the rate of exchange December 31;

Other assets and liabilities—
at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—
at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Gains and losses arising from the foregoing methods are included on the Consolidated Statement of Earnings as Foreign exchange.

Discount and Expense on Long Term Debt

The balance of unamortized discount and expense is being amortized on the straight-line method over the life of the debt with adjustments as debt is retired. Amortization charged to earnings amounted to $484,000 in 1981 and $441,000 in 1980.

Pipeline Transportation System, Depreciation and Amortization

Expenditures for system expansion and major renewals and betterments are capitalized whereas maintenance and repair costs are charged to operating expenses as incurred.

Interprovincial follows the accounting practice of capitalizing, at rates authorized by the National Energy Board, an allowance for interest and equity costs on funds required to finance construction work in progress in Canada. This practice resulted in $2,335,000 and $494,000 being capitalized by Interprovincial in the years 1981 and 1980 respectively.

Lakehead complies with the Financial Accounting Standards statement Capitalization of Interest Cost. In the years 1981 and 1980, interest costs incurred of $236,000 and $235,000 respectively were capitalized as part of the cost of newly constructed facilities.

The companies provide for depreciation of fixed assets, excluding the Montreal Extension and Assets Specially Classified, on the straight-line method at rates that average approximately 3%.

In accordance with terms of the Deficiency Agreement with the Canadian Government (Note 2), Interprovincial is providing for depreciation of all Montreal Extension depreciable facilities on a 20-year straight-line basis.

The National Energy Board determined that certain facilities are not fully utilized and has ordered that the undepreciated cost of these Assets Specially Classified should be amortized over a period of five years ending June 30, 1983.

When fixed assets are retired or otherwise disposed of, the cost less net salvage is charged to accumulated depreciation, except for unusual disposals for which the profit or loss is included in earnings as directed by regulatory authorities.

Deferred Income and Withholding Taxes

The companies follow the tax allocation basis of accounting. Under income tax regulations, depreciation and other costs deducted for tax purposes may differ from the amounts recorded in the accounts. The companies claim deductions permitted for tax purposes which results in maximum benefits and deferral of taxes to years when amounts deductible are less than the depreciation recorded in the accounts.

Earnings of Lakehead are subject to a 15% U.S. withholding tax when paid as dividends to Interprovincial. It has not been considered necessary to provide for this tax on retained earnings of $74,744,000 U.S. of Lakehead at December 31, 1981 because they have been reinvested in that company.

Deferred Investment Tax Credits

The United States subsidiary companies are allowed credits against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service. These credits have been deferred and are being taken into earnings over the life of the related assets.

Earnings per Share

Earnings per share are computed on the weighted average number of shares outstanding during the year. There would be no material dilution of earnings per share if the outstanding stock options had been exercised during the year.

2. **Montreal Extension Deficiency Agreement:**

Interprovincial and the Canadian Government are parties to a Deficiency Agreement whereby the Government will pay the deficiency if operating revenue in respect of the Extension is not sufficient to meet the fixed and variable costs of the Extension. Under the Agreement the Government has an option to purchase the Extension at its capital cost less depreciation, plus related expenses.

Tariffs prescribed by the National Energy Board in respect of the Montreal Extension do not produce sufficient operating revenue to meet the fixed and variable costs of the Extension and have resulted in deficiencies of $7,747,000 and $6,760,000 in the years 1981 and 1980 respectively.

3. **Deferred Charges and Other Assets:**

Deferred Charges and Other Assets at December 31 were as follows: (in thousands of dollars)

	1981	1980
Norman Wells pipeline project	$10,148	$ 2,382
Unamortized discount and expense on long term debt	3,479	3,963
Investment in IPL office building	2,665	
Other	4,250	4,642
	$20,542	$10,987

Norman Wells pipeline project

The National Energy Board has issued a Certificate of Public Convenience and Necessity to Interprovincial Pipe Line (NW) Ltd., a wholly-owned subsidiary of Interprovincial, authorizing construction of a 324 mm diameter pipeline 866 km in length from Norman Wells in the Northwest Territories to Zama in northwestern Alberta. Construction is scheduled to commence in 1983 with completion by mid-1985. The pipeline is designed to transport crude oil and other liquid hydrocarbons from expanded production facilities at Norman Wells. Interprovincial Pipe Line (NW) Ltd. will finance the project, currently estimated to cost $576,000,000, on the basis of 75% debt and 25% equity. The Norman Wells Pipe Line Agreement entered into with Imperial Oil Limited provides the financial support to the project.

4. **Pipeline Transportation System: Accumulated Depreciation and Amortization:**

The pipeline transportation system and accumulated depreciation and amortization by major classes were as follows: (in thousands of dollars)

	Investment, at cost	Accumulated depreciation & amortization	Net investment December 31	
	December 31, 1981		1981	1980
Land	$ 3,124		$ 3,124	$ 3,091
Rights-of-way	14,953	$ 6,717	8,236	8,633
Pipeline	599,112	283,690	315,422	326,306
Pumping equipment, buildings and tanks	273,835	91,616	182,219	162,108
Montreal Extension	249,303	69,336	179,967	191,852
Assets specially classified	25,935	21,486	4,449	7,411
Construction in progress	12,467		12,467	8,910
	$1,178,729	$472,845	$705,884	$708,311

5. **Long Term Debt:**

Long Term Debt (excluding current portion) outstanding at December 31 was as follows: (in thousands of dollars)

	1981	1980
Interprovincial Pipe Line Limited First Mortgage and Collateral Trust Bonds— Series E—5½% due April 1, 1985	$ 4,030	$ 4,780
Sinking Fund Debentures (unsecured)—		
Series A—6% due November 1, 1986	15,986	17,069
B—9⅜% due December 1, 1990	40,800	42,332
C—8⅛% due May 1, 1993	38,000	38,792
D—10⅜% due July 15, 1996	70,000	75,000
E—10⅞% due February 1, 1996	69,845	75,000
F—9⅝% due May 1, 1996	37,200	39,860
Lakehead Pipe Line Company, Inc. Sinking Fund Debentures (guaranteed by Interprovincial)—		
Series A—6½% due August 1, 1992 (1981—$10,593 U.S.; 1980—$10,593 U.S.)	11,404	11,404
B—7⅛% due April 15, 1993 (1981—$44,557 U.S.; 1980—$48,311 U.S.)	47,976	52,017
C—7.60% due June 15, 1997 (1981—$24,005 U.S.; 1980—$24,115 U.S.)	23,622	23,731
	$358,863	$379,985

The First Mortgage and Collateral Trust Bonds of Interprovincial are secured by charges on all its assets.

Principal repayments required on Long Term Debt for the years ended December 31, 1983 through 1986 are $22,236,000, $25,486,000, $27,006,000 and $36,229,000 respectively.

Long Term Debt payable in U.S. currency translated at historical rates of exchange amounts to $83,002,000 and if translated at the December 31, 1981 rate of exchange would be $93,870,000 (1980—$87,152,000 and $99,183,000).

6. Capital Stock:

Interprovincial is authorized to issue an unlimited number of common shares and preferred shares, each without nominal or par value. At December 31, 1981 and 1980 there were 25,733,653 and 25,673,141 common shares outstanding. During 1981, 57,512 shares with an aggregate cash value of $856,000 were issued from treasury as stock dividends. No preference shares have been issued.

Under the Employee Incentive Stock Option Plan, options have been granted to full-time employees to purchase shares of capital stock at not less than 90% of the market value of the shares on the day that the options were granted. No further options may be granted under the Plan. During 1981 options for 3,000 shares were exercised for a total cash consideration of $44,000 and options for 43,925 shares expired. At December 31, 1981 options were outstanding on 50,500 shares at a price of $14.75 per share exercisable until December 1988.

7. Contingent Liabilities:

To December 31, 1981 Lakehead had collected $13,500,000 U.S. under tariff increases accepted for filing by the Federal Energy Regulatory Commission subject to refund. As these tariffs were based on rate-making standards historically followed by oil pipeline companies, management does not consider it necessary to provide for any refunds. It has, however, filed undertakings, under protest, with the Commission to refund with interest any amounts that may ultimately be found to be unlawful. The investigation of Lakehead's tariffs instituted in 1979 by the Commission has been stayed pending its determination of general oil pipeline rate-making standards in other rate proceedings presently in progress.

8. Pension Plans:

Interprovincial and Lakehead have pension plans which cover substantially all employees. The principal amount of the unfunded liability for past service benefits, including experience deficiencies, was approximately $8,357,000 at December 31, 1980, the date of the last actuarial valuation. This amount, together with interest, will be charged to earnings in varying annual installments to 1995. The companies fund accrued pension costs. For the years ended December 31, 1981 and 1980 total costs of the plans amounted to $2,889,000 and $2,725,000 respectively, of which $889,000 and $1,065,000 were applicable to past service benefits. At December 31, 1980 pension fund assets exceeded the actuarially computed value of the vested portion of the benefits.

9. Related Party Transactions:

At December 31, 1981 Imperial Oil Limited owned 32.6% of the outstanding capital stock of Interprovincial. During the years ended December 31, 1981 and 1980 shipments through the pipeline system by Imperial Oil under published pipeline tariff terms accounted for approximately 13% and 14% of consolidated transportation revenue. At year end 1981 and 1980 transportation revenue receivable from Imperial Oil amounted to $2,440,000 and $1,638,000 respectively.

10. Segmented Information:

Information by Geographic Segments

The companies are engaged exclusively in the business of transporting crude oil and other liquid hydrocarbons through a common carrier pipeline system in Canada and the United States.

	1981			1980		
	Transportation Revenue	Contribution to Net Income	Assets	Transportation Revenue	Contribution to Net Income	Assets
	(in thousands of dollars)					
Canada	$142,336	$23,178	$515,324	$142,044	$20,591	$524,718
United States	159,761	33,182	307,702	159,984	28,113	303,549
	$302,097	$56,360	$823,026	$302,028	$48,704	$828,267

The Pipeline Transportation System

as at December 31, 1981

	Canada	United States	Total
Right-of-way (kilometres)	2 280	2 799	5 079
Number of pumping stations	33	50	83
Installed power (kilowatts)	395 212	326 393	721 605
Line fill (cubic metres provided by shippers)	2 177 000	1 916 000	4 093 000

Pipeline Capacity

Line section	Thousands of cubic metres per day 1982
Edmonton-Regina	240
Regina-Superior	230
Superior-Sarnia via Straits of Mackinac	88
Superior-Sarnia via Chicago	117
Sarnia-Toronto	74
Sarnia-Montreal	54
Westover-Buffalo	25

Kilometres of Main Line Pipe

Diameter (mm)	Canada	United States	Total
324	106	42	148
406	681	—	681
457	62	523	585
508	1 287	20	1 307
610	1 242	—	1 242
660	3	523	526
762	856	1 646	2 502
864	1 245	1 270	2 515
1 219	361	170	531
Total kilometres	5 843	4 194	10 037

Ten year review

Financial (in thousands of dollars except per share amounts)	1981	1980
Income—Transportation revenue	$ 302,097	302,02
—Deficiency Agreement	$ 7,747	6,76
—Other income	$ 17,592	12,27
Expenses—Operating—power and fuel	$ 63,033	75,04
—other	$ 54,625	47,61
—Property and other taxes	$ 19,055	18,16
—Depreciation and amortization	$ 42,959	42,09
—Interest	$ 34,937	37,27
Income taxes	$ 56,467	52,16
Earnings	$ 56,360	48,70
per share, weighted average	$ 2.19	1.9
Dividends paid	$ 38,544	38,45
per share	$ 1.50	1.5
percentage of earnings	68%	79
Working capital (deficit)	$ 51,613	54,67
Funds provided from operations	$ 105,041	93,54
Additions to pipeline system	$ 40,282	31,45
Investment in pipeline system (cost)	$1,178,729	1,148,64
Long term debt	$ 358,863	379,98
Statistical		
Shares outstanding at year end (thousands)	25 734	25 67
Percentage of shares registered in Canada	96%	95
Shareholders at year end	20 158	21 59
Number of employees at year end	801	80
Investment in pipeline system, per employee	$1,472,000	1,420,00
Receipts (m^3/d)		
—Alberta	141 909	157 25
—Saskatchewan	19 878	24 11
—Manitoba	1 622	1 67
—Ontario	273	51
—United States	34 935	39 95
	198 617	223 50
Deliveries (m^3/d)		
Canada—Prairie Provinces	21 693	22 27
—Ontario	96 843	102 72
—Quebec	37 073	49 01
	155 609	174 01
United States—Minnesota-Wisconsin	18 158	18 32
—Illinois-Indiana	3 841	4 91
—Michigan-Ohio	8 330	8 59
—New York-Pennsylvania	13 118	17 07
	43 447	48 91
	199 056	222 93
Cubic metre kilometres (millions)	163 757	187 12
Average haul (kilometres)	2 254	2 29
Average transportation revenue (including Deficiency Agreement)		
—per cubic metre	$4.26	3.7
—per 100 cubic metre kilometres	18.9¢	16.5

1979	1978	1977	1976	1975	1974	1973	1972
315,176	269,989	245,699	196,712	194,715	192,944	202,831	164,207
5,320	16,766	28,988	20,209	—	—	—	—
10,323	7,723	4,766	3,725	2,300	2,074	2,461	1,689
74,020	56,428	47,424	30,902	27,550	31,603	30,699	18,735
44,806	39,658	44,423	30,924	26,491	27,277	22,075	18,088
16,975	16,913	15,371	12,675	12,588	11,218	8,415	9,612
40,992	39,580	38,479	32,224	24,889	24,044	21,803	19,674
40,175	43,242	44,657	34,399	23,273	24,724	21,481	19,010
58,339	51,847	45,252	40,407	43,323	40,567	53,034	40,693
55,512	46,810	43,847	39,115	38,901	35,585	47,785	40,084
2.17	1.83	1.71	1.53	1.52	1.39	1.87	1.57
37,744	34,524	30,688	30,688	30,688	30,688	28,127	23,976
1.47½	1.35	1.20	1.20	1.20	1.20	1.10	0.94
68%	74%	70%	78%	79%	86%	59%	60%
56,626	52,354	40,791	11,499	(22,575)	(16,695)	(4,800)	(707)
101,287	93,258	91,907	87,876	78,859	69,193	84,230	70,510
29,133	9,413	20,197	113,587	151,202	31,192	94,056	66,022
1,124,158	1,098,376	1,091,747	1,085,984	978,725	828,725	801,416	708,688
404,698	435,398	474,483	487,859	396,588	296,554	315,874	282,142
25 620	25 573	25 573	25 573	25 573	25 573	25 573	25 527
95%	95%	95%	93%	95%	94%	94%	94%
21 747	21 957	21 942	20 359	21 010	20 423	19 621	18 864
802	791	798	790	755	751	730	706
1,402,000	1,389,000	1,368,000	1,375,000	1,296,000	1,103,000	1,098,000	1,004,000
168 711	147 937	151 087	138 762	146 855	168 394	180 358	139 437
24 375	25 420	25 526	23 195	23 527	30 661	34 550	34 605
1 731	1 771	1 842	1 782	1 941	2 096	2 259	2 373
708	1 207	397	247	254	134	657	508
45 949	47 338	43 551	26 492	12 139	6 713	1 768	1 341
241 474	223 673	222 403	190 478	184 716	207 998	219 592	178 264
22 309	19 388	19 831	19 627	21 846	24 751	23 365	18 424
105 437	96 209	94 061	83 829	81 070	83 395	74 352	65 836
49 046	43 681	37 007	13 304	—	—	—	—
176 792	159 278	150 899	116 760	102 916	108 146	97 717	84 260
25 920	23 653	28 776	27 333	26 422	26 925	31 061	27 894
2 675	2 216	2 475	3 968	12 996	26 112	36 438	23 105
16 973	17 920	18 895	19 205	22 456	26 239	31 937	22 719
19 089	21 085	21 487	20 825	19 575	20 283	21 729	19 286
64 657	64 874	71 633	71 331	81 449	99 559	121 165	93 004
241 449	224 152	222 532	188 091	184 365	207 705	218 882	177 264
195 958	176 427	173 880	148 183	148 801	171 054	180 816	146 654
2 224	2 156	2 140	2 153	2 211	2 256	2 263	2 261
3.64	3.51	3.38	3.15	2.89	2.54	2.54	2.53
16.4	16.3	15.8	14.6	13.1	11.3	11.2	11.2

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